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A customer loyalty model for services based on a continuing relationship with the provider

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Abstract: *In the present paper we propose a standard model for customer loyalty evaluation of services based on a continuing relationship with the provider. The relationship terminates when the customer shows a clear unloyalty behavior (switching to another provider or not using the service). We consider two different dimensions of loyalty: Behavioral Loyalty and Attitudinal Loyalty, that we suggest to analyze in relation to Trust, Convenience, Overall Satisfaction and Inertia. The methodology is based on the Structural Equation Models.*

Keyword: Behavioral Loyalty, Attitudinal Loyalty, Structural Equations Models.

1. Introduction

In the last years, in Italy, many service markets, which were monopolistic (or duopolistic at the most) at the beginning, are quickly developing in competitive way. Mainly we refer to mobile and residential telecommunication services and pay per view television systems, but gas and electric power companies will be involved progressively in the future too. The companies in question are characterized by supplying the customer with a continuing over the time service. Because of their monopolist derivation and psychological customers' aversion to switch provider, such service are characterized by relationships played on the long time, so that the relative importance of a customer is very relevant. Typically, in such services the relationship between customer and provider are based on binding contract and the service supply is broken off by an active (cancelling the contract) or passive (non using over a certain time) customer's behaviour.
In these cases a loyalty measure is based on duration of time as customer into the service system rather than the repurchasing behaviour usually used to evaluate brand loyalty.
Generically, Customer Loyalty aim is retaining and making the customers loyal towards a brand or a product. Indeed, because of nowadays systems characterized by higher competition levels and increasing difficulty in acquiring new customers - becoming in the long run hard to please and more careful to make choices – the companies become much more stable and competitive if they are likely to rely on a certain percentage of loyal customers. Out of doubt, the companies meet economically higher convenience in investing on making the customer loyal rather then acquiring new ones

2. Several dimensions of loyalty

From a general point of view, to evaluate the customer loyalty impact on brand or service performance, several authors have considered different aspects of loyalty. Mainly loyalty have been seen as a multidimensional construct identified by different dimensions, some of which typically behavioural and others underlying specific psychological processes. So, (Rundle-Thiele 2005) it is possible to individualize an *Attitudinal Loyalty* defined as a customer's predisposition towards a brand that includes preference (Bowen and Chen, 2001, Butcher et al., 2001), intention to

repurchase (Bloemer et al., 1999), commitment, and word of mouth (Ganesh and al., 2000); a *Complaining Behaviour*, having the negative meaning of dissatisfaction response or positive one e.g compliments to a supplier; a *Propensity to be loyal* seen as a personality trait (Raju 1980); *Resistance to competitive offers* and, finally, a *Situational Loyalty* defined as propensity to stay loyal through a variety of purchase and consumption situations (Dubois and Laurent 1999). Recently, a *Servloyal* construct (Sudhahar et al., 2006) based on seven dimensions is been presented. Dimensions involve different commitment degrees to a service provider: besides the *Behavioural* and the *Attitudinal* dimensions, there figure also *cognitive, conative, affective, trust* and *commitment* dimensions. Particularly, the Cognitive Loyalty (Oliver 1999) focuses on product performance; we could consider it as a weak form of loyalty, based upon the product information available to the custumer, while the *Conative Loyalty* is experienced when the customer focuses on willing to continue on buying the brand or using the service so we could consider it as based upon behavioural intentions. However the customer could desire remaining with the provider but this desire may be showed itself to be an anticipated but unrealized action. Another step of loyalty is the *Affective* one for which customer's positive propensity towards the brand/service is encoded in the customer's mind as affect. Finally *Commitment Loyalty* regards the involvement of customer with the provider and derives from cognition, conation, trust and affect.

3. The Model

3.1 Constructs of the Model

According with some authors (Chaudhuri and Morris 2001, Bandyopahyay and Martell 2007), we have focused on two dimensions (constructs) of loyalty:

- Behavioral Loyalty (BL)
- Attitudinal Loyalty (AL)

We define the Behavioral Loyalty as the customer's willingness to continue the relationship with the provider in the short period. In other words, if the customer intends to continue to have the provider service or if he/she is considering the eventuality of a switch. The Behavioral Loyalty doesn't imply a commitment to the provider, but simply it expresses the degree of loyalty in the immediate future.
For Attitudinal Loyalty we mean the predisposition towards the provider deriving from a psychological process (Jacoby 1978, Rundle and Thiele 2005). Conceptually, such a dimension of loyalty is more complex and should express the degree of customer's commitment to the provider. It should be shown by customer's preference and customer's word of mouth. The Attitudinal Loyalty should imply a loyalty over the short period.
Both the loyalties are analysed in relation to three main factors (constructs):

- Trust (T)
- Convenience (C)
- Satisfaction (S)

Trust identifies how the customer relies on the provider reliability. It concerns the provider ability, perceived by the customer, to assure a reliable service in respect of the contractual rules. Trust is the linked with the provider's capability to resolve problems with the smaller possible uneasiness for the customer as well. Some authors (Sudhahar et al. 2006) state Trust as a dimension of Loyalty, others view it as an affecting factor of Loyalty. We prefer this point of view.
Convenience identifies how much the customer considers convenient the provider service. Such a construct concerns either the rates of the service or its quality compared to competitors.
Satisfaction identifies how the customer is overall satisfied of the provider service. It reflects the perceived quality of the service. The role of the satisfaction in customer loyalty has been discussed

by several authors (Bloemer et al. 1995, 1999). Satisfaction doesn't imply necessary Loyalty, but generally affects it.
Behavioral Loyalty can be due to inertial factors too (Bloemer et al. 1995, Oliver 1999). These factors can be external: lack of suitable alternatives, too high costs/ long times for switch and/or internal: psychological propensity to loyalty or aversion to switch. For such a reason we have considered another construct concerning such inertial factors; we call it *Inertia* (I).
In the markets in question, we believe these factors play a main role in customer's decisions. Indeed high rates and dissatisfaction about the quality of the service are the main causes of switch. Nevertheless, in these markets, dissatisfaction determines a switch if and only if it is over a personal thereshold of tolerance due to inertial factors (Zeithaml et al. 1996).
Every constructs is indirectly measured by items (X_j), for which each interviewed customer declares his concordance on a Likert scale.
Data collection should comes from a survey carried out on a random sample.

Construct Y_i	*Items* X_{ij}
T	- the service is supplied as established by contract rules - the problems are quickly resolved
C	- the service rate is too expensive - the service is suitable to my needs
S	- I am overall satisfied of the service - the quality of the service is satisfactory
I	- to change provider involves too high costs and/or times - if I switch provider, I could be more dissatisfied
BL	- I will continue to be supplied by this provider - I am looking for best offers
AL	- I think that the provider is the best on the market - I would recommend the provider to others

Table 1: Constructs and some possible items.

3.2 Structural Models

The relations among the constructs are analyzed with a Structural Equation Models (SEM), that we report below:

$$S = \beta_1 C + \beta_2 T + \delta_1$$
$$AL = \beta_3 C + \beta_4 T + \beta_5 S + \delta_2$$
$$BL = \beta_6 C + \beta_7 T + \beta_8 S + \delta_3$$
$$BL = \beta_9 AL + \beta_{10} I + \delta_4$$

The δ's identify independent errors in the structural equations.
Every constructs is indirectly measured by measurement equations:

$$X_{ij} = \alpha_{ij} Y_i + \varepsilon_{ij}$$

where X_{ij} is the j-th item for the construct Y_i; ε_{ij} identifies a measurement error.
To estimate the model parameters, we suggest the Path-Model approach since it allows, besides the estimation of correlations among the constructs, the estimation of the construct scores. This allows to estimate a degree of loyalty (Behavioral and Attitudinal) for every considered customer and for the provider as well.

4. Final considerations.

The proposed model has been thought to point out how some factors "that we hold remarkable" influence Behavioral Loyalty and Attitudinal Loyalty. The model should show if a bond exists between Attitudinal Loyalty and Behavioral Loyalty as well (Brandyopahyay and Martell, 2007).
Since the providers know how long a customer is behaviourally loyal, they can compare it with the degree of Attitudinal Loyalty arisen from the model.
At the moment, in Italy such a model could be suitably applied just at telecommunication services.
It is intention of the authors to apply the model in a case study.

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